

VZCZCXRO6502
RR RUEHBC RUEHDE RUEHIHL RUEHKUK
DE RUEHAD #3100/01 2121235
ZNY CCCCC ZZH
R 311235Z JUL 06
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 6384
INFO RUCNRAQ/IRAQ COLLECTIVE
RUEHGB/AMEMBASSY BAGHDAD 0179
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHNSC/NSC WASHDC
RHMFISS/HQ USCENTCOM MACDILL AFB FL
RUEKJCS/JOINT STAFF WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 ABU DHABI 003100

SIPDIS

NOFORN
SIPDIS

CORRECTED COPY

DEPT FOR C - ZELIKOW, NEA/ARP, EB/IFD/ODF
TREASURY FOR DEPUTY SECRETARY KIMMITT
CENTCOM FOR J-5 RADM MOELLER

E.O. 12958: DECL: 07/31/2016

TAGS: [EAID](#) [ECON](#) [EFIN](#) [IZ](#) [AE](#)

SUBJECT: KIMMITT/ZELIKOW MEETING IN ABU DHABI WITH ARAB
MONETARY FUND DIRECTOR GENERAL

ABU DHABI 00003100 001.2 OF 003

Classified By: Ambassador Michele J. Sison for reasons 1.4 b and d.

11. (C) Summary: An interagency delegation led by Treasury Deputy Secretary Robert Kimmitt and Counselor of the Department of State Philip Zelikow briefed Arab Monetary Fund (AMF) Director General, Chairman of the Board Jassim Al-Mannai on the International Compact for Iraq on July 23 in Abu Dhabi. Al-Mannai said that the Arab Monetary Fund was already working closely with the Iraqis and would be pleased to support and participate in the Iraqi Compact, either at the preparatory stage or later. He said that the AMF and the Iraqis were discussing how to resolve Iraq's outstanding debt to the AMF (around \$505 million counting capitalized interest) in order for Iraq to be able to access AMF funding again. Al-Mannai supported the concept of the International Compact for Iraq, but expressed concern that the current security environment would make it difficult for the Iraqis to implement an ambitious reconstruction effort. AMF Advisor Dr. Hazem El-Beblawi suggested that the GoI needed to deliver visible and tangible results for the Iraqi people in the short-term in order to affect Iraqi public perceptions positively. Al-Mannai welcomed cooperation with the USG and any visits by U.S. Treasury officials going to Iraq. End Summary.

Iraqi-AMF Relations

12. (C) Al-Mannai said that the AMF had close relations with the Iraqi government, especially with the Minister of Finance and the Central Bank Governor. The AMF has been providing Iraq with technical assistance and training, including through courses targeted toward Iraq. The AMF (in conjunction with the IMF) has trained around 300 Iraqi officials at its institute in the UAE. Iraq has been an important member of the AMF since its founding.

13. (C) In the 1980s, the Iraqis borrowed heavily from the AMF then stopped paying. Over the last two years, Al-Mannai said there have been active AMF-Iraqi MinFinance/Central Bank discussions about dealing with the debt and Al-Mannai described the discussions as encouraging. Under AMF regulations, once a country is in arrears, it can no longer

borrow from the fund, although it is still eligible for training and technical assistance. (Note: As of June 2006, Iraq owed the AMF approximately \$505 million in principal and capitalized interest, making it the largest debtor to the AMF. End Note.)

¶4. (C) Al-Mannai said that he thought both sides would be able to solve Iraq's arrears problem allowing the country to again access fund facilities. He explained that the AMF had more flexibility in dealing with arrears than the IMF. It could restructure the debt and allow Iraq to "tap" the fund before it completely resolved its arrears. Al-Mannai added that the AMF was considering exempting Iraq from some portion of accumulated interest, noting that Iraq as a major AMF shareholder could benefit more from AMF funds than could other countries. (Note: A country is eligible to borrow four times its paid up capital. End note.) In response to Kimmitt's question, Al-Mannai said that the AMF could announce its debt restructuring in advance of the GCC, noting that he did not think the GCC could hold back a facility owned by 22 Arab countries.

¶5. (C) Al-Mannai also said that the AMF had discussed the possibility that Iraq could benefit from trade finance facilities and the AMF subsidiary, the Arab Trade Financing Program, had signed an agreement with Iraqi banks allowing them a line of credit to the trade financing facility.

Iraq Compact

¶6. (C) Kimmitt briefed Al-Mannai on the International Compact for Iraq, stressing that the Iraqis would need to agree to specific economic reforms in return for international support. Kimmitt also asked for AMF assistance and advice in helping the Iraqis shift from their current state-owned centrally-planned economy to a more market-oriented economy. Al-Mannai noted that this would require a cultural shift in

ABU DHABI 00003100 002.2 OF 003

Iraq, adding that the AMF had experience in this area, since it had worked in countries such as Egypt and Yemen as they started to transform their economies. Kimmitt explained about the structure of the compact preparatory group and noted the importance of having regional multilateral financial institutions supportive of Iraqi reform. Al-Mannai confirmed that the AMF would support Iraqi reform and would welcome participating, whether at the preparatory group level or "later on."

¶7. (C) Al-Mannai said that the AMF has sent a joint AMF-IMF mission to Iraq, but had returned after the UN headquarters was bombed. Since that time, he added that the AMF, due to security concerns, was not in a position to return to Iraq. In the meantime, however, the AMF and the Iraqis were engaging in active discussions on debt restructuring.

¶8. (C) Al-Mannai said he thought that the international community would be able to raise the funds required to support Iraqi reconstruction. He expressed concern that, in the current security environment, the GoI and the international community might not be able to implement an ambitious reconstruction program, even with the best possible commitment. Kimmitt agreed that security was a concern, but noted that the international community (including the UN) was steadily building up its presence. He added that capacity problems at Iraqi ministries were one of the big constraints on reconstruction. The GoI had instituted a highly bureaucratic system to manage projects in an effort to cut down on rampant corruption. He stressed that the Compact was not project finance oriented, but would focus on key elements of the Iraqi political economy, such as the energy sector and distributing oil and gas revenues. Al-Mannai agreed that it would be important for people to see tangible improvements in their living situation and that it would be inadvisable to wait for the security situation to improve.

"Give them Something Tangible"

¶9. (C) Al-Mannai introduced AMF advisor Hazem El-Beblawi, who had met with Iraqi PM Maliki during his July 3-4 visit to the UAE. El-Beblawi confirmed that Maliki was very interested in returning to all of the Arab financial institutions and was aware of the AMF's role in Iraq. El-Beblawi suggested that, rather than a long-term compact, it would be important for the Iraqi government to have an immediate economic success story. This would give the government credibility with the average Iraqi. He suggested that, for example, the GoI take one "unsettled area," declare that it would provide essential services and then deliver. A long term "big fix" program would not involve the Iraqi people.

¶10. (C) Kimmitt and Zelikow both acknowledged El-Beblawi's point about the need for near-term gains, but argued that an overarching strategic vision was also key to Iraqi recovery. Kimmitt solicited the AMF's expertise on areas such as reforming payment systems and on transitions to markets. Al-Mannai noted that the AMF was engaged in an initiative with the IMF and the Bank for International Settlements (BIS) on payments systems and had been working in Egypt, Yemen, and Syria on this project. He was happy to contribute AMF expertise to Iraq. Zelikow welcomed the AMF's contributions and asked for the AMF's advice on a few issues where the Iraqis could feel that their government and the international community "did something." Al-Mannai suggested that the GoI needed to start with the basic needs of the population (i.e., electricity and water). If these services improved, the population would realize that something had changed.

¶11. (C) El-Beblawi noted that there, in Iraq, perception was key. The GoI needed to give the people the idea that they had achieved something. He pointed to Singapore, which had transformed itself from one of the dirtiest cities in the world to one of the cleanest. The GoI also needed to give its people tangible and visible improvements while working on its master plan. Their position should be "test us and we will deliver."

AMF-USG Cooperation

ABU DHABI 00003100 003.2 OF 003

¶12. (SBU) Kimmitt said that the Treasury Department had received funding to increase its presence in Iraq and that six technical specialists would be going to Iraq. He asked whether they could consult with the AMF either on the way to Iraq or on trips out of Iraq. Al-Mannai welcomed any visit. He stressed that the AMF was happy to play a role. The AMF had played a role in the BMENA initiative and looked forward to participating in this initiative as well.

Organization of the AMF

¶13. (SBU) Al-Mannai described the AMF as an organization similar to the IMF, with 22 members from the Arabian Gulf to North Africa. The AMF does not provide project financing, but provides technical assistance and financing for economic sector reform. It has a balance sheet of \$5 billion and paid-up capital of \$3 billion. According to Al-Mannai, technical assistance is becoming a bigger part of the AMF's operations as Arab countries' need for financing diminishes with higher oil prices. The AMF is focusing on trade liberalization and facilitation of WTO accession. In addition, the AMF serves as the secretariat for Arab Central Banks coordinating efforts on banking supervision, payment systems, and stopping terrorist finance. He stressed that the AMF always appreciated the training and assistance provided by the U.S. Federal Reserve.

Participants

¶14. (SBU) AMF Meeting Participants

Arab Monetary Fund

--Dr. Jassim Al-Mannai, Director General, Chairman of the Board
--Dr. Hazem El-Beblawi, AMF Advisor
--Mr. Ghassan Bechara, Director, Finance and Computer Department
--Dr. Mustapha Kara, Director, Economic and Technical Department

Arab Trade Financing Program

--Mr. Sherif Abdel Khalek, Director, Trade Development

¶15. (SBU) U.S. Delegation

--Robert Kimmitt, Deputy Secretary of Treasury
--Dr. Phillip Zelikow, Counselor of the State Department
--Ambassador Michele J. Sison
--RADM Robert Moeller, CENTCOM
--Evangelia Bouzis, NSC Director for Iraq
--J. Alexander Monsarrat, Department of State
--Vickie Alvo, Department of the Treasury
--Oliver John (notetaker)

¶16. (U) This cable has been cleared by DepSec Kimmitt and Counselor Zelikow.
QUINN